

Alleghany County Administration

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County Manager

Don Adams

ALLEGHANY COUNTY

County Manager's Fiscal Year 2012-2013

Budget Message

June 1, 2012

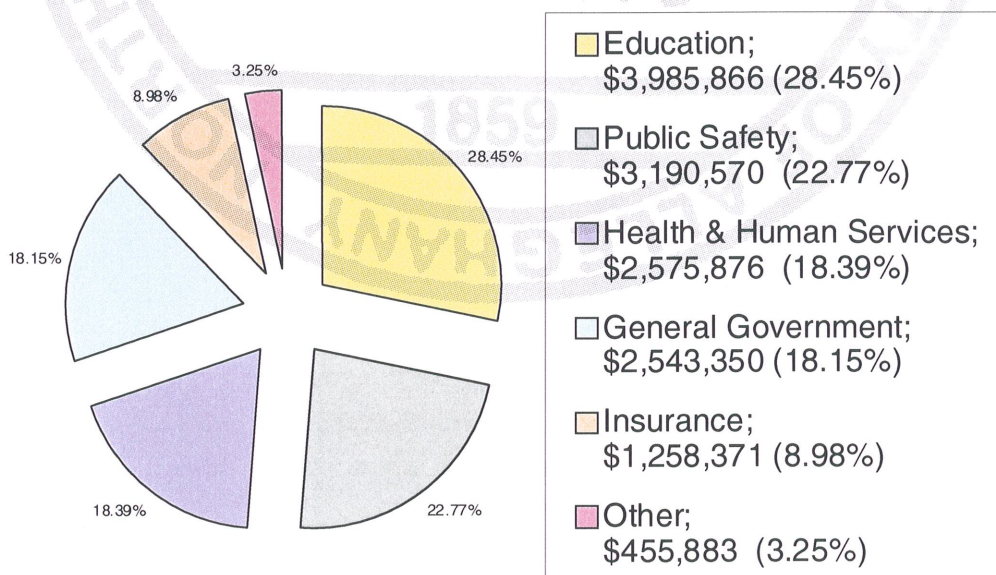
Alleghany County Commissioners,

The proposed Fiscal Year (FY) 2012-13 Annual Budget for Alleghany County is in the amount of \$14,009,916. This proposal constitutes an approximate decrease of 1.41% (\$200,205) under the FY 11-12 amended budget. The budget is balanced and prepared in accordance with the Local Government Budget and Fiscal Control Act, presenting appropriations by categories of expense and revenues by source.

EXPENDITURES HIGHLIGHTS

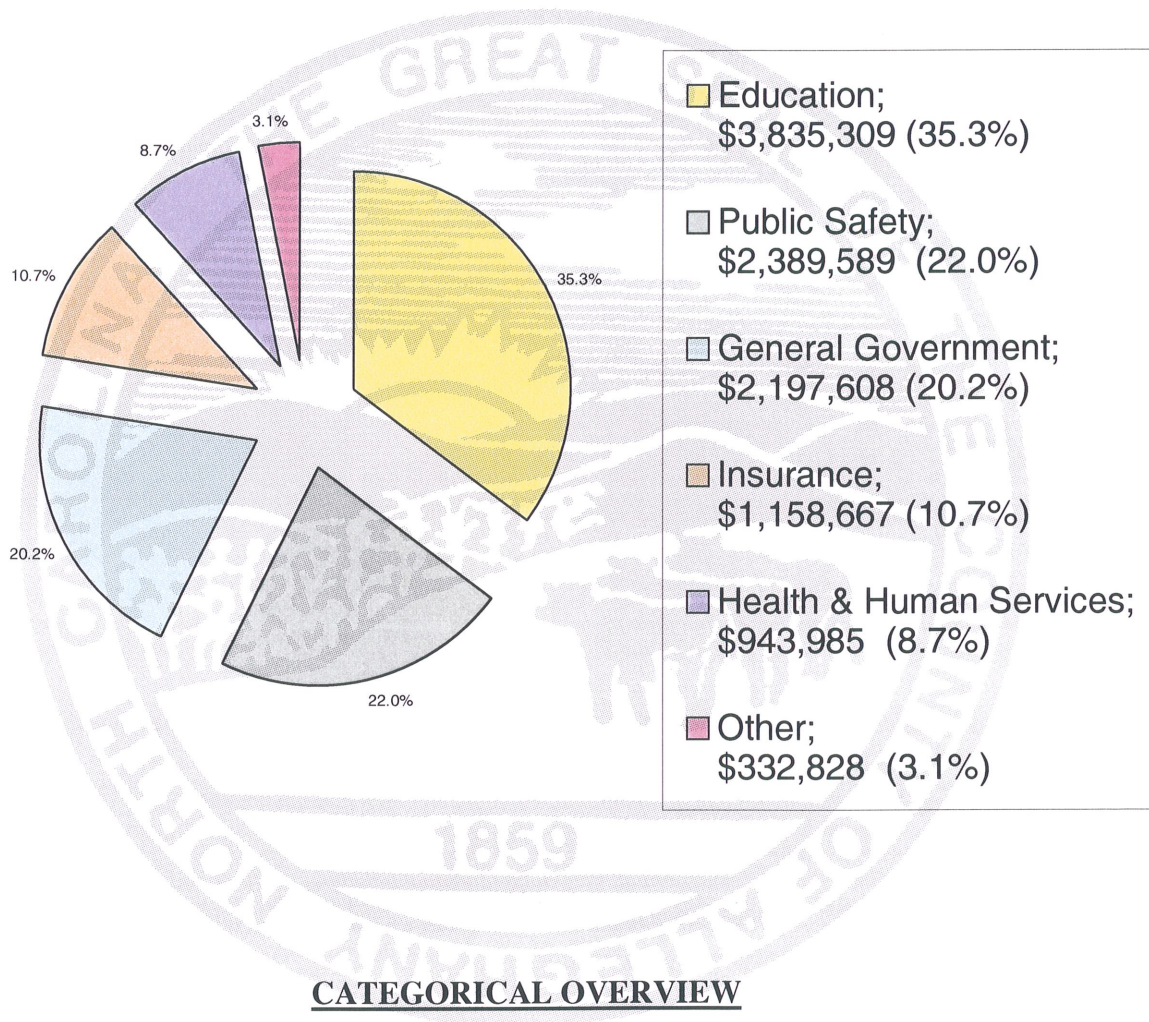
The following pie charts illustrate Alleghany County's proposed "Total Expenditures By Function" and "Property Tax, Sales Tax and Undesignated Revenues Expended By Function".

Total Expenditures By Function- \$14,009,916



Property Tax, Sales Tax, Undesignated Revenues Expended By Function -
\$10,857,986

The “Property Tax, Sales Tax, Undesignated Revenues Expended By Function” chart is derived from the “Total Expenditures By Function” chart by removing the grants, reimbursements and other revenues from the corresponding expenditures. This portrays an accurate example of where the County’s property tax, sales tax and undesignated revenue dollars are actually being expended.



PERSONNEL

The proposed FY 12-13 budget includes only one change in pay to EMS personnel. The Allegheny County Board of Commissioners previously approved the request from EMS to allow our paramedic personnel to begin training to become certified in rapid sequence intubation (RSI) and thrombolytics. The Board of Commissioners agreed to give the EMS personnel a one grade pay increase for each certification achieved. All but one of our full-time personnel have become RSI certified and have received their one grade pay increase.

The EMS personnel have now received their training and are ready to be certified in thrombolytics. The proposed FY 12-13 budget includes a one grade pay increase to all EMS personnel who have achieved the thrombolytic certification.

Although I have not proposed any other personnel changes or pay increases at this time, there are several issues that will need to be dealt with in the future when funding is available. These issues can be broken down into three areas. These areas are

1. Completion of position grade reviews / modifications that began in FY 09-10.
2. Longevity issues.
3. Cost of living adjustments

In FY 09-10 the Alleghany County Board of Commissioners made position grade modifications within Administration, Finance, Emergency Management, Tax Office, Mapping/E911 Office, Register of Deeds Office, Inspections, Planning, Recreation, EMS, Transportation Administration, Soil & Water, Public Works, Social Services and Board of Elections (FY 10-11). These changes have positively impacted approximately 63.2% of our full-time workforce leaving the remaining 36.8% unaddressed at this point. The positions that have not been reviewed at this point are full & part-time Deputies, full & part-time Dispatchers, full & part-time Jailers, full and part-time Transportation Drivers, Recreation part-time workers, the Janitorial position, Transportation Dispatcher, Building Inspector, the Veteran's Service Officer, the County Manager, the Tax Administrator, the elected Register of Deeds and the elected Sheriff.

Alleghany County's current longevity plan pays employees an additional 1% of their base salary for 5-9 years of service, 2% of their base salary for 10-14 years of service, 3% of their base salary for 15-19 years of service and 4% of their base salary for 20+ years of service. The current system recognizes years of service in five-year increments. There have been multiple examples of where a newly hired employee starts at the same pay as an employee with two - four years of experience. In an attempt to recognize these inequities and to retain Jailers, the Alleghany County Board of Commissioners gave a 7% longevity raise to existing Jailers in FY 08-09 and a 1.875% longevity raise to the Lieutenant Jailer in FY 09-10. The Board also gave the Soil & Water Technician II a 3% longevity increase in FY 09-10 along with the grade adjustment. There have been no other employees that have received longevity adjustments above the County's current longevity plan within this same time frame.

Due to funding constraints, the FY 12-13 proposed budget does not include a cost of living adjustment for employees. The last cost of living adjustment given to employees was in FY 08-09. Cost of living adjustments are traditionally granted as an adjustment to the position grades by increasing the starting salaries of all grades. Increasing the starting pay through cost of living adjustments provides an increase to the specific employee while also ensuring that the starting pay for that position remains relatively competitive.

When funding becomes available, I highly recommend that the Alleghany County Board of Commissioners deal with the aforementioned inequities / issues before addressing any other new personnel requests. I believe the first priority is to review the grade classifications for the remaining 36.8% of the County's workforce. The County should then examine its longevity policy to ensure that it adequately retains our experienced workforce and is impartially applied to all employees. Finally the County should examine its ability to give cost of living adjustments on an annual basis in an attempt to keep the salaries on pace with ongoing economic conditions.

INSURANCE / RETIREMENT

Alleghany County participates in the NC Association of County Commissioners' Liability/Property and Workers' Compensation insurance pools. Health Benefits have been privately contracted directly with CIGNA. Alleghany County also carries insurance involving employee bonds, inmate hospitalization and unemployment. Alleghany County's overall FY 12-13 insurance is proposed to increase by \$116,195 or 10.17% over the amended FY 11-12 budget.

In order to maintain health benefits the same as current FY 11-12, CIGNA has quoted Alleghany County a 19% increase in rates. After reviewing multiple alternative plans that reduce benefits, I have built into this proposed budget a reduced health benefits plan that increases rates by 8.8%. The overall health insurance costs are proposed to be increased by \$98,881 or 10.76% over the amended FY 11-12 budget. The proposed 10.76% increase includes the 8.8% rate increase along with additional retirees and employees that were not included in the FY 11-12 budget. Also included in the 10.76% increase is an additional \$2,000 to hire a professional consulting/brokerage firm to assist in looking at future alternatives for County health benefits. Recognizing that health insurance will be an ongoing issue, County employees wish to begin discussing this issue in August 2012 to prepare for the next fiscal year. The employees will discuss cost saving methods along with ways to maintain benefits. An appropriate consulting/brokerage firm can greatly assist in these discussions.

The property/liability insurance has increased by \$7,483 or 7.84%. The workers' compensation has increased by \$9,569 or 9.95%. The inmate liability insurance has increased by \$262 or 3.35%. The employee bonds, cobra/medicare service fee and unemployment insurance are projected to remain the same. The County contributes 6.74% to general employee retirement and 6.77% to law enforcement retirement.

CAPITAL

There are capital needs that should be addressed in FY 12-13. The following table itemizes the proposed FY 12-13 capital purchases.

Department	Description	Total Amount
EMS	4 Wheel Drive Ambulance	\$135,000
Emergency Management	60kw Generator at EMS Building	\$ 31,358
	TOTAL	\$166,358

It is proposed to borrow the \$135,000 for the purchase of a new ambulance over a term of five years. The annual debt service payment on a \$135,000 loan over a term of five years at 4.5% interest is \$30,750. The requested \$30,750 is included in the debt service portion of the proposed budget. The EMS generator will be purchased and installed using grant funds from the NC Emergency Management Office and FEMA.

MAJOR CAPITAL PROJECTS

There are two major capital projects that the Board of Commissioners will need to fund and/or make decisions in regards to in FY 12-13.

The septic system serving Piney Creek Elementary School is currently under moratorium from the North Carolina Department of Environment and Natural Resources. The estimated cost to repair the system is \$576,000. Last year Alleghany County received a planning grant from the NC Rural Center in the amount of \$20,000. Alleghany County recently received an additional grant award of \$364,000 from the NC Rural Center. The County has also been recently invited to submit a full application to the Appalachian Regional Commission (ARC). The County is eligible to receive up to \$182,000 from ARC. The full application is due to ARC by June 22, 2012. ARC will make a final decision on the grant application this Summer 2012. In the next couple of months Alleghany County will be finalizing the design with the NC Department of Environment and Natural Resources. Once the design is complete, the County can begin the bidding process. If the County is successful with the remaining grant application to ARC, then the total cost to the County will be \$10,000. This proposed budget allocates \$10,000 to be transferred from the General Fund to the Piney Creek Sewer Project Fund. The project fund will be brought before the Commissioners for adoption once all grant sources are in place.

In October 2010, Alleghany County was awarded a grant in the amount of \$172,479 from the NC Parks & Recreation Trust Fund to build Veterans' Memorial Park consisting of six multi-use fields, a walking trail, restroom/concessions and a picnic shelter. The original proposed project cost was \$344,959 leaving \$172,480 to be funded by the County. Originally it was the County's intention to fully fund the matching amount of \$172,480, but unfortunately severe economic times forced the County to put off the project. The County has seen some great success in a fundraising effort in the last two years. The Alleghany Rotary has committed \$15,000 towards this project. BB&T has committed \$25,000 towards the Park. The Chatham Foundation has committed \$25,000 towards the Park. A private donor who wishes to remain anonymous has donated \$50,000 for the Park. Funds raised to date totals \$115,000. This leaves \$57,480 to be raised in order to reach the matching amount of \$172,480. The County has also submitted a \$75,000 grant request for the Park to the Golden Leaf Foundation through their Community Assistance Initiative (CAI). Since the original budget of \$344,959 is a couple of years old, I have requested an additional \$17,520 above the needed \$57,480 from Golden Leaf in order to account for potential increased costs. The local leadership board has prioritized the Park as one of the top six local projects to be funded. The County has been invited to submit a full application to the Golden Leaf Foundation. This application is due June 18, 2012. The County will find out in August 2012 whether or not it will receive any funding from the Golden Leaf Foundation. County funds are not currently proposed to be budgeted for this project in FY 12-13. Due to the fact that this project must be completed and closed out with the NC Parks & Recreation Trust Fund by the end of September 2013, a decision on whether or not to move forward with this project will have to be made by September 2012.

ALLEGHANY COUNTY BOARD OF EDUCATION

Current Expense

Increased funding from the County to the Alleghany County Board of Education's current expense has been minimal for the last three years. In FY 08-09, the schools received \$2,498,675. In FY 09-10, the schools were held at level funding at an amount of \$2,498,675. In FY 10-11, the schools received an additional \$60,000 or 2.4% for a total of \$2,558,675. In current FY 11-12, the schools received an additional \$40,000 or 1.56% for a total of \$2,598,675. It is currently proposed to once again allocate level funding of \$2,598,675 to the schools for FY 12-13.

Capital – School Capital Reserve Fund

State law requires that 30% of the Article 40 (½ cent) sales tax and 60% of the Article 42 (½ cent) sales tax go to schools for capital. It is also now law that Counties are to hold school systems harmless in regards to the Medicaid swap deal with the State. The mandated 30% of Article 40 and 60% of Article 42 portions to schools are not required to be applied to food sales. The NC Department of Revenue has changed its reporting format to the Counties to reflect food sales separately from other sales. The NCACC has developed a new methodology for calculating the mandated portion to schools. It is estimated that the mandated portion that will go to the schools is \$438,689 in FY 12-13. Adding in the \$100 of interest these funds will generate, new funds going to the schools for capital in FY 12-13 will be \$438,789. Note: This number does not include any rollover funds from the previous year.

SPECIAL APPROPRIATIONS

There are many agencies that have requested funds under the special appropriations category. I have divided these groups into five categories: 1. Grants & Mandates 2. Volunteer Safety 3. Primary Core Functions 4. Secondary Functions 5. New Items.

Grants & Mandates

This category includes the Juvenile Crime Prevention Council (JCPC), CSC fines & forts, deed stamps, transfer to register of deeds enhancement fund, transfer to re-evaluation fund and ACTV support (formerly Channel 50/21). The JCPC program is mainly funded through grant sources. CSC fines & forts, deed stamps and transfer to register of deeds enhancement fund are mandated by law. \$40,000 is proposed to remain in the budget to save for the upcoming re-evaluation. ACTV support (formerly Channel 50/21) is a pass through of PEG channel revenues to our local public television station.

Volunteer Safety

This category includes Sparta-Alleghany Volunteer Fire Department, Piney Creek Volunteer Fire Department, Glade Creek Volunteer Fire Department, Laurel Springs Volunteer Fire Department, Cherry Lane Volunteer Fire Department, Alleghany County Volunteer Rescue Squad and the volunteer Fire Commission. Funding for the Fire Departments and Rescue Squad is proposed to be frozen at the current FY 11-12 level. It is currently proposed that the Fire Commission receive \$33,100 in FY 12-13. \$20,500 of the \$33,100 will be used to reimburse each Fire Department and the Rescue Squad for contributions made on behalf of each member for retirement. \$10,600 of the \$33,100 will be used to purchase supplemental accidental / workers compensation for the Fire Departments and the Rescue Squad. The remaining \$2,000 of the \$33,100 will be used mainly to buy supplies for the Fire Parade. The Fire Commission has also requested \$90,000 (\$15,000 per Fire Department & Rescue Squad) to match equipment grants applied for on an annual basis. Alleghany County has funded this request for the last three years out of E-911 funds. The E-911 funds that legally could be spent on these requests are now exhausted. This \$90,000 request would have to be funded out of the General Fund. At this point, this \$90,000 request is not built into the proposed FY 12-13 General Fund Budget.

Primary Core Functions

This category includes the Alleghany County Public Library, Appalachian District Health Department, Smoky Mountain Center, Alleghany County Council on Aging, Wilkes Community College (Alleghany County Campus), NC Forestry Service and the Alleghany County Group Homes (as designated by the Board in FY 09-10). I have classified these entities as primary core functions for several reasons. Health Department and Mental Health services are State-mandated County functions and provide vital services to our citizens. The Public Library is our County's largest literary resource. Council on Aging's primary functions are to provide meals and in-home aid services to the elderly. They are the largest provider of these services in the County. Wilkes Community College is the only provider of secondary education in Alleghany County. Their joint efforts with the Alleghany County School System have dramatically increased educational opportunities within our County. WCC also plays a major role in continuing education programs for our new and existing employers. The NC Forestry Service is the only free provider of forestry management planning to our community and is a valuable resource with our Fire Departments when fighting forest fires. Alleghany County Groups Homes is the only significant provider of life skill services and employment opportunities to our mentally challenged population group. It is currently proposed that the funding for these entities remain at the FY 11-12 level.

Secondary Functions

Funded entities in this category include the Blue Ridge Opportunity Commission (BROC), Alleghany Arts Council, Alleghany Planning Committee, Alleghany County Health Advisory Council, Alleghany Family Resource Center, Alleghany Connections, Alleghany Wellness Center, American Red Cross, Wilkes Center for Deaf, Appalachian Senior Programs and Fireworks / Summer Jamboree. It is currently proposed that the funding for these entities remain at the FY 11-12 level with one exception. I have proposed to remove the \$1,000 allocation to the Summer Jamboree.

These funds have traditionally been used by the Sparta Revitalization Committee to help advertise all of the events that occur during the Summer Jamboree. The Alleghany County Commissioners have increased the occupancy tax from 3% to 6% and have created a new Tourism Development Authority (TDA) to administer these funds. The newly developed TDA has developed an application process to review and prioritize the funding of all marketing concepts in Alleghany County. The Sparta Revitalization Committee can apply to the TDA for these funds.

New Items

The proposed budget allocates \$10,000 to be transferred from the General Fund to the Piney Creek Sewer Project Fund. The project fund will be brought before the Commissioners for adoption once all grant sources are in place.

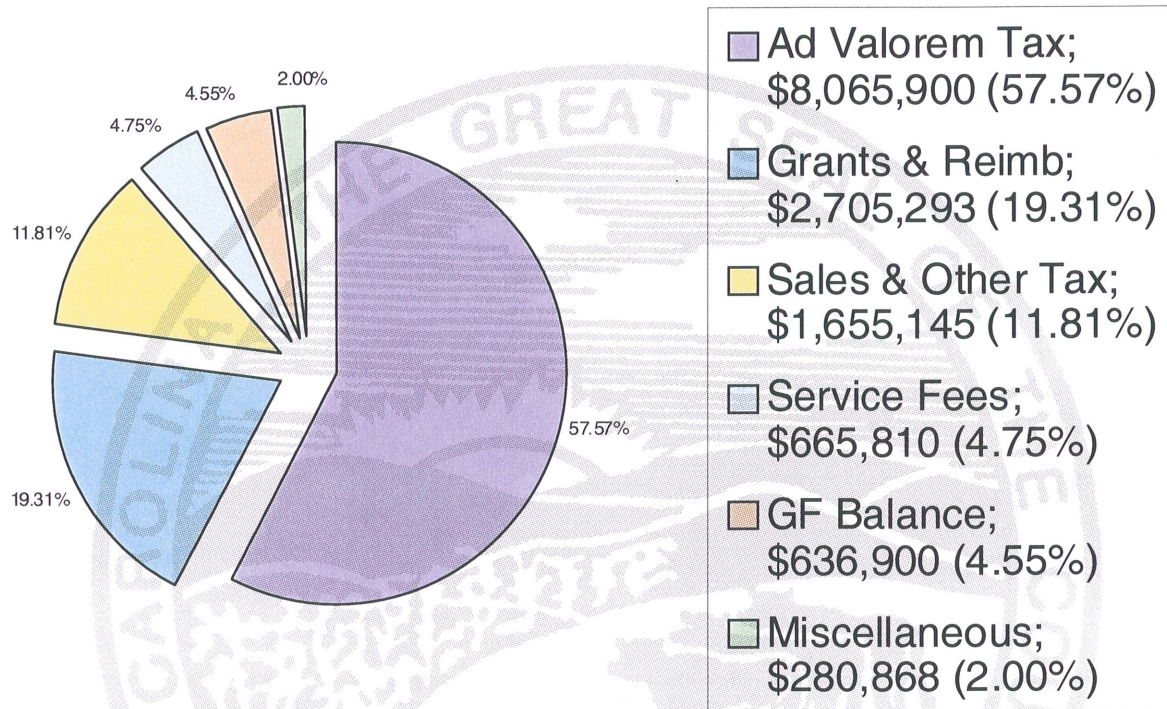
At this point I am not proposing that the Blue Ridge Business Development Center (BDC) be funded out of the General Fund. The BDC Manager currently oversees the multiple tenants that are leasing space, helps entrepreneurs develop business plans, assists Miles Job Fund applicants to apply for and receive loans, has become certified as a loan processor for the NC Rural Center's micro/enterprise loan program, represents Alleghany County on the High Country Workforce Development Board, has invigorated the Alleghany County Economic Development Corporation (ACEDC) and is currently developing a county economic development plan in conjunction with High Country Council of Governments. I am requesting that the Board of Commissioners consider funding the Blue Ridge Business Development Center through the economic development fund. It is estimated that there will be approximately \$66,558 available in the Economic Development Fund for recruitment and other economic development needs.

\$200,000 has been allocated in the proposed FY 12-13 budget in order to prepare for potential liabilities and/or legal costs associated with the closing of New River Service Authority (NRSA). Alleghany County has not legally accepted any liability associated with NRSA's closing. The County has loaned approximately \$250,000 to NRSA to assist with the transition of mental health services to another provider. The \$250,000 loan has been secured by a deed of trust placed onto property owned by NRSA located in Alleghany County. Although Alleghany County has not legally accepted any liability associated with NRSA's closing, we are currently involved in litigation that at a minimum will require some funding for legal services. Budgeting \$200,000 towards this issue will accomplish two goals. These goals are 1. To budget funds necessary for legal expenses 2. Begin to build capacity within the budget to deal with potential outcomes of litigation.

Alleghany Memorial Hospital (AMH) has requested \$600,000 from the County to offset their current cash flow losses. AMH has conducted a public forum at the request of the County Commissioners and has met with the Commissioners to answer specific questions. I am unable to propose funding the \$600,000 request without the Board of Commissioners entertaining the concept of eliminating another program or increasing revenues.

REVENUE HIGHLIGHTS

Counties rely on many revenue sources to fund their initiatives. Allegheny County's main revenue categories are ad valorem taxes, grants & reimbursements, sales & other taxes, service fees, miscellaneous and general fund balance appropriation. The County Commissioners have direct control over ad valorem taxes and some service fees while economic conditions and local/state initiatives determine the other revenues. The following pie chart illustrates Allegheny County's proposed Revenues By Source.



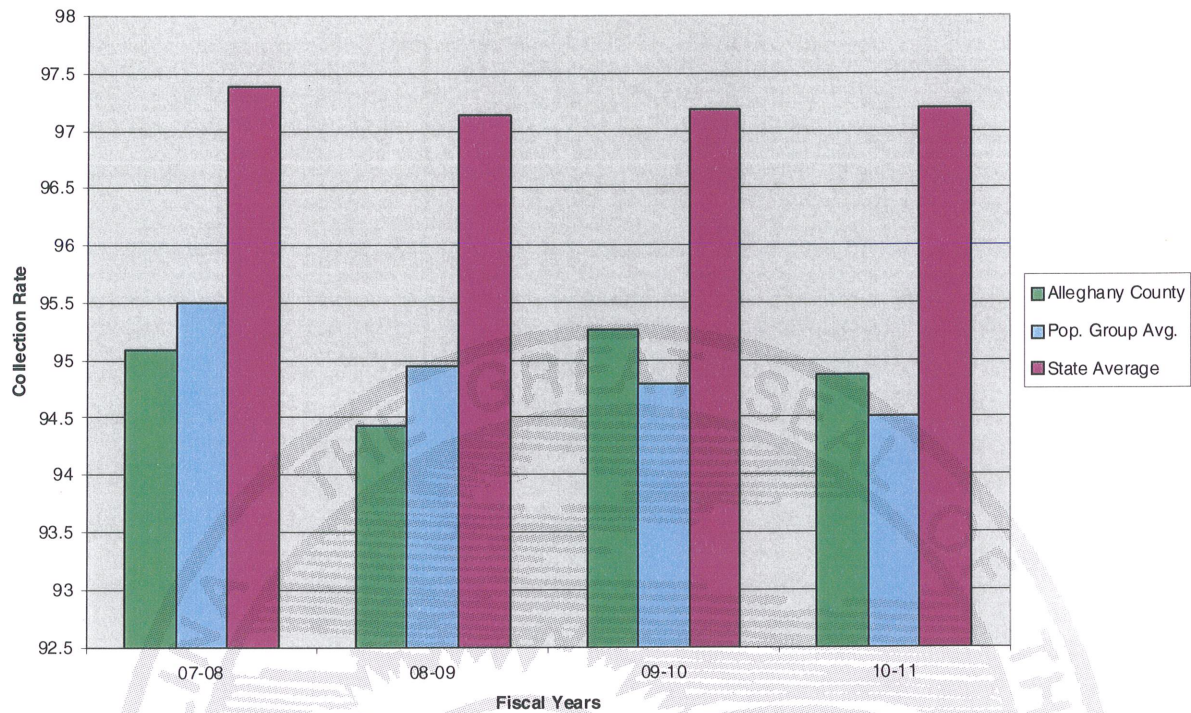
TOTAL BUDGET - \$14,009,916

AD VALOREM TAXES

Approximately 57.57% (\$8,065,900) of the County's budget is proposed to be funded by the property tax. The proposed \$8,065,900 is comprised of \$7,580,000 from FY 12-13 property taxes, \$350,000 from prior year taxes and \$135,900 from penalties/ interests/ garnishments for late payments.

The taxable base is projected to be \$1,775,529,086. State law dictates that a County can utilize at a maximum the last audited collection rate when estimating future tax collections. Allegheny County's Fiscal Year 10-11 audited collection rate was 94.87%. Therefore it is recommended that a 94.87% collection rate be applied when estimating property tax revenues. The graph below shows Allegheny County's collection rates in comparison to the average collection rates throughout the State.

ANALYSIS OF PROPERTY TAX COLLECTION RATES



GRANTS AND REIMBURSEMENTS

Grants and reimbursements account for approximately 19.31% (\$2,705,293) of the County's proposed revenues. Major reimbursement/grant highlights include \$1,326,515 in DSS administration reimbursements, \$302,883 in Child Development Administration, \$229,430 in Medicaid hold harmless payments, \$127,725 (85% of costs) for the administration of the Transportation System and \$50,418 reimbursement from the Board of Education and Federal Government to offset additional Glade Creek School Debt.

This category also includes revenue items such as other reimbursements/grants for Juvenile Crime Prevention Council, Social Services, Transportation, Soil & Water, Veteran's Administration, Emergency Management, Soil & Water, Council on Aging, NW Library, Roaring Gap deputies, dispatch salary, pin equipment, gas reimbursements, utility reimbursements and all transfers from other funds. Alleghany County has been awarded \$31,358 from the NC Emergency Management Office and FEMA to purchase a backup generator for the EMS Building. Approximately \$15,000 will remain available to be expended towards the Alleghany Farmers' Market. A \$4,462 HAVA grant has been applied for to offset election costs.

SALES & OTHER TAXES

Sales and other taxes account for approximately 11.81% (\$1,655,145) of the County's proposed revenues. Alleghany County receives tax revenues from the State wine/beer tax, the ABC liquor tax, cable franchise tax, PEG channel tax and sales taxes Article 39 (1 cent), Article 40 (1/2 cent) and Article 42 (1/2 cent). (Note: The occupancy tax was increased last year from 3% to 6%. These revenues were moved to a separate fund to be administered by the newly formed Tourism Development Authority.)

The State wine/beer tax, ABC liquor tax, cable franchise tax and PEG channel tax should remain constant. The PEG channel tax is mandated to be given to Alleghany Community Television (ACTV).

Article 39 is a 1 cent sales tax revenue that is determined by the amount of sales generated directly in Alleghany County (point of delivery). Alleghany County is required to hold the Town of Sparta harmless for the Medicaid swap with the State out of these funds. Current FY 11-12 is the second year that Alleghany County has seen growth in this sales tax. It is projected that the Article 39 sales tax will generate \$619,203 of revenue in FY 12-13. This constitutes a modest 2% increase over current year projected receipts.

Article 42 is a ½ cent sales tax revenue that traditionally has been based on Statewide sales and distributed to the Counties based on population. This tax is now distributed to the counties based on sales generated directly in Alleghany County (point of delivery). Since the County normally receives more funds based on Statewide sales, Alleghany County must hold the Town of Sparta harmless for any losses attributed to switching the distribution methodology. It is projected that the Article 42 sales tax will generate \$351,735 of revenue in FY 12-13. This constitutes a modest 2% increase over current year projected receipts.

Article 40 is a ½ cent sales tax revenue that is based on Statewide sales and distributed to the Counties based on population. Current FY 11-12 is the second year that Alleghany County has seen growth in this sales tax. It is projected that Article 40 sales tax will generate \$572,207 of revenues in FY 12-13. This constitutes a modest 2% increase over current projected receipts.

SERVICE FEES

Service fees account for approximately 4.75% (\$665,810) of the County's proposed revenues. Alleghany County has seen a slight drop in Building Inspection revenues but the Register of Deed revenues have seen a slight increase. I believe development revenues have leveled off to the point that we should not see anymore significant drops in the future. Other revenues included in this category are line items such as recreational fees, fire inspection fees, County beer & wine fees, court fees, jail telephone fees, all Sheriff Department fees, sod seeder rental fees and Town of Sparta tax collection fees. All of these fees will remain relatively constant and are budgeted to reflect actual FY 11-12 receipts. It is anticipated that EMS receipts will be \$360,000 in FY 12-13.

The boarding of State and Federal inmates is a volatile revenue source and is difficult to predict. Alleghany County received very little revenue in current FY 11-12 for these services. The Sheriff is currently working with Federal and State officials to house their inmates. I have recommended budgeting only \$1,000 for these revenues in FY 12-13. The proposed jail budget does not reflect the cost of housing State and Federal inmates. If the jail begins housing a significant number of these inmates, then Alleghany County will need to adjust the jail operating budget to accommodate the additional expenses.

MISCELLANEOUS & GENERAL FUND BALANCE

Miscellaneous revenues account for approximately 2% (\$280,868) of the County's proposed revenues. These revenues include interest earned on investments, lottery proceeds, CSC fines and forfeitures, miscellaneous revenues, drink/snack revenues, the kids vote program and loan proceeds for the proposed new ambulance. I have proposed to borrow approximately \$135,000 to purchase a new ambulance. The \$135,000 will be budgeted as a revenue and expense. The annual debt payment of \$30,750 is budgeted in the debt service. Due to extremely low interest rates, it is projected that interest on investments will be only \$3,000 in FY 12-13. Currently it is estimated that Alleghany County will receive \$100,139 in lottery proceeds in FY 12-13. The final lottery amount received will be dictated by the State budget process. The CSC fines / forfeitures and miscellaneous revenues have been reduced to reflect current year receipts. All other revenues will remain fairly constant.

General Fund balance appropriation accounts for approximately 4.55% (\$636,900) of the proposed revenues. \$436,900 of the General Fund balance appropriation is used to balance the budget for general operations. \$200,000 of the General Fund balance appropriation is used to balance the budget for the potential liabilities associated with the closing of NRSA.

GENERAL FUND BALANCE DISCUSSIONS & RECOMMENDATIONS ON FURTHER ACTIONS

The FY 11-12 amended budget appropriates \$718,163 to balance the budget. (Note: All references to the FY 11-12 amended budget are as of April 19, 2012. There have been changes to the budget since then) FY 11-12 began using only \$386,232 to balance the budget. The additional \$331,931 (\$718,163 - \$386,232) added to the budget through the course of the year was comprised of \$252,892 for NRSA and another \$79,039 for two new Social Services employees, additions to the jail for housing inmates and other minor changes. Although \$718,163 has been appropriated to balance the FY 11-12 amended budget, I was originally projecting that only \$346,451 would actually be used. This would have reduced the overall general fund balance down to \$2,230,670. Projected expenditures for current FY 11-12 is \$13,495,042 (Spreadsheet total of \$13,789,915 minus \$270,032 indirect Social Services costs minus \$24,841 indirect Transportation costs). \$2,230,670 is approximately 16.5% of the projected expenditures for current FY 11-12 (\$2,230,670 divided by \$13,495,042). There are two major transfers from other funds to the general fund at the end of this current fiscal year that will dramatically improve the previous projections. The transfers will come from the Glade Creek Water & Sewer Project Fund and the Transfer Facility Fund.

The Glade Creek Water & Sewer Project Fund (Project Fund) was adopted in order to build the well and septic system to serve Glade Creek Elementary School. The revenues for the Project Fund are grant and loan proceeds from USDA. These grant and loan proceeds were intended to pay for the entire project cost. Prior to the grant/loan awards from USDA and prior to the creation of the Project Fund, Alleghany County purchased the land associated with this project out of the General Fund at a cost of \$95,000. When the Project Fund was adopted by the County Commissioners, it was intended for Project Fund to reimburse the General Fund \$95,000. Unfortunately when the bids were received for the project, Alleghany County had to allocate an additional \$37,350 towards the project cost. The Board of Commissioners decided to use a portion of the \$95,000 intended for General Fund reimbursement to offset these additional costs. The construction project is now complete and a portion of the transfer can take place. \$91,705 is available to be transferred from the Project Fund to the General Fund. I am recommending that only **\$77,205** be transferred from the Project Fund to the General Fund before the end of FY 11-12. I recommend leaving approximately \$14,500 in this fund until Glade Creek School is completely operational. The water and septic system has not operated at full capacity at this point. I would like to keep some funds available until the system has operated at full capacity for a couple of months. Once this has occurred and no problems are found, then the remaining \$14,500 could be transferred over to the General Fund.

In early 2000, Alleghany County received a notice from the NC Local Government Commission regarding the losses incurred at the Transfer Facility. Alleghany County had received audit findings regarding the losses that had been incurred. The NC Local Government Commission strongly recommended that Alleghany County either loan or contribute enough cash to the Transfer Facility Fund to offset the losses that had incurred in the previous years. On January 17th, 2000, the Alleghany County Board of Commissioners voted to loan the funds from the General Fund to the Transfer Facility Fund to offset the losses. On June 5th, 2000, the Alleghany County Board of Commissioners voted to loan the Transfer Facility Fund \$295,654 from the General Fund. It was originally intended for the Transfer Facility Fund to pay the General Fund back on an annual basis until the loan was repaid. Even with the \$295,654 loan, the Transfer Facility Budget did not begin getting out of the red until 2002. Since 2002 the Transfer Facility Budget has experienced gains with the exception of two years. Two years ago the Board of Commissioners reduced rates in order to reduce these gains. After speaking with the auditors, it has been determined that the Transfer Facility Fund is now in a position to completely repay the \$295,654 loan back to the General Fund. The auditors will make the adjustments at the end of this fiscal year to pay the **\$295,654** loan back to the General Fund from the Transfer Facility Fund.

The transfer of \$77,205 and \$295,654 from other funds to the General Fund increases the fund balance projection to \$2,603,529 (\$2,230,670 + \$77,205 + \$295,654). The \$2,603,529 is approximately 19.3% of the projected expenditures for current FY 11-12 (\$2,603,529 divided by \$13,495,042). The general fund balance is now projected to increase by at least \$26,408 with these transfers instead of losing the original projected amount of \$346,451.

I have always recommended to the Board of Commissioners that at a minimum to never allow the County's fund balance to fall below two months of operating expenses (16.7%). A much safer fund balance percentage actually falls between 20-30%. Significantly dropping the County's fund balance below two months of operational expenses could cause cash flow issues, negatively impact our financial ratings and could erode the overall financial stability of County operations. \$2,603,529 in savings is approximately 18.98% of the proposed FY 12-13 budget once the indirect costs are removed. The \$436,900 in general fund balance appropriation to balance the budget for general operations, when considered alone, could be an acceptable risk. History has shown us that normally \$200,000 to \$400,000 of the General Fund balance appropriation is not actually utilized. If history continues to repeat itself, then there is a good chance that the majority of the proposed \$436,900 will not be utilized. Even if the entire \$436,900 was utilized (which is highly unlikely), then the fund balance percentage would drop down to approximately 15.8% by the end of next year. This would allow for the appropriate adjustments to be made in the next fiscal year in order to preserve the fund balance.

The \$200,000 in general fund balance appropriation to balance the budget for potential liabilities associated with the closing of NRSA in combination with the above \$436,900 is not considered to be an acceptable risk. Although these potential liabilities (if any) may not be completely known for several years, I believe it to be prudent to start building capacity to deal with them in FY 12-13. At minimum we know that there will be legal fees associated with this issue in FY 12-13. I have no other choice but to recommend to the Board to either cut expenditures or to raise revenues by \$200,000 to cover these potential liabilities. Even if we have minimal expenses in FY 12-13 associated with NRSA, then building this capacity will help ensure that the budgeted \$436,900 in fund balance appropriation will not impact the County's overall savings.

I am currently aware of three alternatives in which to build \$200,000 of capacity to prepare the County for the upcoming potential liabilities. These alternatives are 1. Reduce expenditures 2. Successfully foreclose on and sell the NRSA property in Alleghany County 3. Increase revenues.

Reduce Expenditures

I have examined multiple ways to reduce expenditures during this FY 12-13 budget process. I have already proposed to reduce health benefits to the employees and removed needed capital items from the budget requests. The proposed FY 12-13 budget does not include any increases to education or special appropriation allocations. The County has already reduced items such as travel and supplies over the last few years. The County has already installed utility cost saving items such as programmable thermostats and energy efficient lighting throughout the facilities. Other examples of cost saving measures include consolidating the County's copier and office supply purchasing power. In order to reduce expenditures by \$200,000, the County will need to look at reducing personnel costs and/or to reduce services. Examples of these types of reductions used in the past include unpaid furlough days for employees, reduction in force and reduction in special appropriation / education allocations. Anything beyond these type of traditional reductions used in the past would require the complete elimination of services. I am prepared to present specific information in regards to how much these type of reductions would save. If the Board chooses to reduce expenditures, I need some general direction from the Board on which method of reduction is preferred.

Foreclosure on NRSA Property

Alleghany County has loaned NRSA approximately \$250,000 in order to assist in transitioning mental health services to another provider. The County secured a deed of trust on NRSA's property located in Alleghany County. Currently Alleghany County is foreclosing on this deed of trust. The property is being offered for sale at the steps inside of the Alleghany County Courthouse door at 10:00 am on June 7, 2012. If the County is able to recoup approximately \$250,000 from the sale of this property, then the estimated fund balance entering into FY 12-13 will increase to \$2,853,529 (\$2,603,529 + \$250,000). Even if the worst case scenario occurred where Alleghany County utilized the entire \$636,900 of fund balance appropriation in FY 12-13 (highly unlikely), then the fund balance percentage would drop down to approximately 16.2% by the end of the year. This would allow for the appropriate adjustments to be made in the next fiscal year in order to preserve the fund balance.

Increase Revenues

The proposed FY 12-13 budget does not include additional revenues due to a tax increase. The current tax rate of \$0.45 per \$100 of value remains the same. If the Board chooses not to reduce expenditures and/or is not successful in recouping approximately \$250,000 in the sale of the NRSA property, then the Board needs to raise additional revenues. Approximately \$168,500 of revenue can be generated for each cent the tax rate is raised. The Board has the authority to charge general fund service fees for EMS, building inspections, fire inspections and recreation services. These fee schedules will be reviewed during the budget process. The Board also has the authority to place an additional ¼ cent sales tax on referendum during the November 2012 general election. If approved by the voters, this additional ¼ cent sales tax would generate approximately \$160,000 per year in additional revenues.

SPECIAL FUND HIGHLIGHTS

NOTE: These funds are separate operating entities from the general fund budget. There are additional personnel and capital recommendations in the following summaries.

TRANSFER FACILITY ENTERPRISE FUND

The Alleghany County Transfer Facility FY 12-13 proposed operating budget is \$775,750. This proposal constitutes an approximate increase of 0.5% (\$3,762) over the FY 11-12 amended budget of \$771,988. There are no major operational changes proposed for FY 12-13. There are no major capital expenditures planned for FY 12-13.

EMERGENCY 911 FUND

The FY 12-13 E911 proposed budget is \$107,827. This proposal constitutes an approximate decrease of 49.7% (\$106,386) under the FY 11-12 amended budget of \$214,213. There are no major operational changes proposed for FY 12-13. There are no major capital expenditures planned for FY 12-13.

TRANSPORTATION OPERATIONAL FUND

The FY 12-13 Transportation Operational Fund Budget is proposed to be \$418,976. This proposal constitutes an approximate decrease of 20% (\$104,991) under the FY 11-12 amended budget of \$523,967. The Fund is operated as a revenue based fund relying on its own revenues to pay for expenses.

Highlights of this fund include a \$47,563 Elderly and Disabled Transportation Program grant, \$48,807 Rural General Public grant, \$5,772 Work First Transportation grant and \$75,446 in a capital grant. Additional grants include \$16,000 to offset operational costs for a new elderly and disabled van ("ED") and ARRA funds in the amount of \$3,000 to offset other operational costs.

The recommended capital budget for the Operational Fund is as follows:

Description	Amount
Replacement Lift Van	\$43,000
Replacement Conversion Van	\$39,700
Logos for 4 Vans	\$ 850
TOTAL	\$83,550

Ninety percent (90%) of all capital is funded through grant sources.

OTHER FUNDS

This category includes other funds such as the Economic Development Fund, the Tourism Development Authority Fund, Fairgrounds Fund, Soil & Water Fund, Drug Agency Fund, Register of Deeds Enhancement Fund, Library Fund, Re-Evaluation Fund, Scattered Site Housing Fund, School Capital Reserve Fund and all active building funds. These Funds can be discussed during the budget process.

CLOSING

In closing, I would like to extend my appreciation to all County employees who work extremely hard to provide the necessary services that make Allegheny County a great place to live. I also extend my thanks to the Department Heads, Elected Officials and Special Appropriation representatives for their cooperation in fashioning their budget requests to the required specifications and timelines. And last – but by no means least – I would like to thank Finance and Administration employees for their tireless effort and attention to detail over the budget development process.

Respectfully submitted,



Don Adams
Allegheny County Manager